

# FRESNO 4Q17 OFFICE MARKET

## MARKET IS HEALTHY AND GROWING

### State of the Market

The fourth quarter of 2017 ended a year filled with new construction and growth while maintaining a steady and healthy level of tenant movement and vacancy in all submarkets of Fresno. Most major submarkets remained stable with little to no movement. The largest jump occurred in the East Shaw submarket, where vacancy rates increased from 17.5% to 19.2%. This increased vacancy could stem from multiple factors, including building ownerships changing hands and the rehabbing of buildings with a fresh new look for the new year, as well as tenants moving to submarkets in the northern end of town. Almost all other submarkets remained 0.5% above or below the previous quarter's vacancy rate. Overall, the Fresno market saw a slight drop in the vacancy rate, from 11.8% in the third quarter to 11.7%.

### Highlights

The Fresno market saw the addition of numerous new construction projects in 2017, the largest being the Boardwalk at Palm Bluffs, a 75,000-square-foot office complex in the Palm Bluff submarket, which is almost full now. Little else was near completion during the second and third quarters. More projects neared completion during the fourth quarter, with the majority located in the Clovis submarket. The Clovis submarket has not seen much new construction, especially Downtown, until this year. This submarket has been underserved in new, quality office space over the years, and these new buildings will help draw new tenants to the area.

The Palm Bluffs submarket also saw the occupancy of a 46,500-square-foot building that had been vacant for quite some time, breathing life into a project that had held the submarket's vacancy at above-normal rates.

### Sales Activity

Sales remained active during the fourth quarter, with many investors/buyers looking to close escrow before the end of the year. With fewer investment properties on the market, sellers were looking to capture the attention of buyers with last-minute sales. Although there were not a lot of sales, those that closed in the fourth quarter took advantage of the lower interest rates and 1031 exchanges.

### Looking Ahead

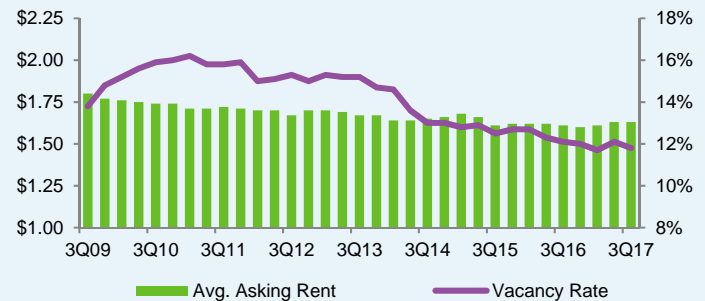
Lease and sales activity are both likely to continue at a moderate pace, with vacancy decreasing in most of the submarkets, particularly for Class A space in the northern submarkets. The balance between tenants and landlords should remain stable, as the overall market grows at a sustainable pace. Major changes in taxes and interest rates will affect sales activity only slightly.

### Current Conditions

- Vacancy rates continue to decrease
- Lease rates tick up, concessions sparse
- Class A space in northern submarkets being absorbed
- Buyers taking advantage of low interest rates
- Overall office market remains healthy

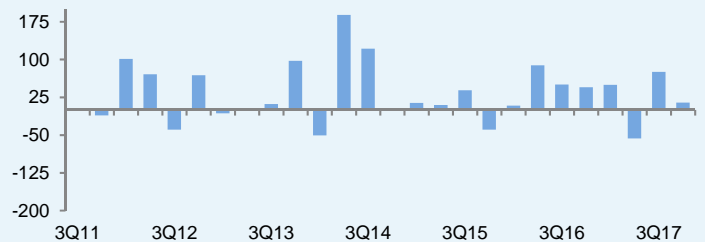
### Market Analysis

#### Asking Rent and Vacancy



#### Net Absorption

Square Feet, Thousands



### Market Summary

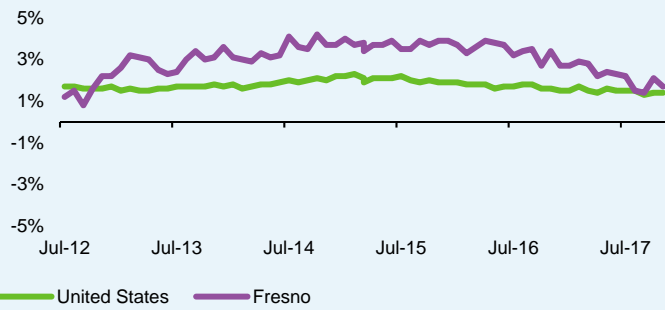
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	19.8MSF	19.7MSF	19.6MSF	↑
Vacancy Rate	11.7%	11.8%	12.0%	↓
Quarterly Net Absorption	14,448	75,398	44,792	↔
Average Asking Rent	\$1.66	\$1.63	\$1.60	↑
Under Construction	27,983	60,689	72,151	↑
Deliveries	30,804	19,392	0	↑



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**Payroll Employment**

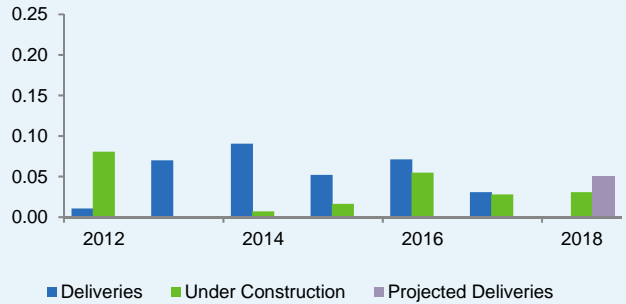
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

**Construction and Deliveries**

Square Feet, Millions



**Lease/User Transactions**

Tenant	Building	Submarket	Type	Square Feet
Atkinson Anderson Loya Ruud & Romo	State Compensation	Woodward	Direct	8,426
N/A	1125 E Spruce Ave	Woodward	Direct	7,994
N/A	Park Place	Palm Bluffs	Direct	6,901
Fresno Dental Professionals	Plaza Del Rio	Woodward	Direct	6,765
Noble Credit Union	Civic Center Square	Downtown	Direct	6,065

**Select Sales Transactions**

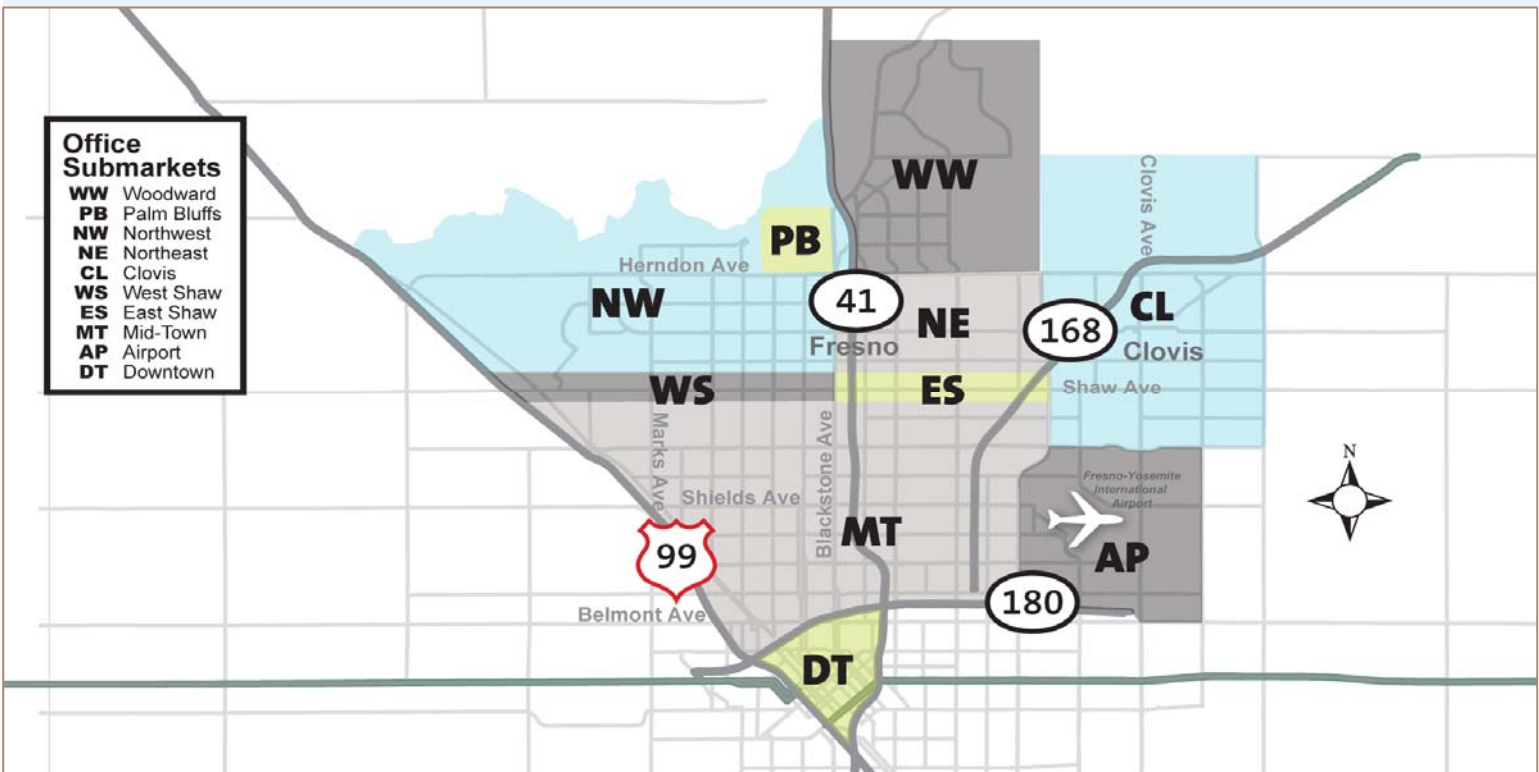
Building	Submarket	Sale Price	Price/SF	Square Feet
7535 N Palm Ave	Palm Bluffs	\$7,700,000	\$223	34,568
2416 W Shaw Ave	West Shaw	\$1,200,000	\$84	14,000
1110 N Blackstone Ave	Midtown	\$850,000	\$69	12,391
2630-2650 Tuolumne St	Downtown	1,100,000	\$157	7,000
7075 N Howard St	Woodward	1,000,000	\$192	5,186



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**Submarket Statistics**

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
Downtown/CBD	3,300,117	-	13.0%	13,508	-15,888	\$2.13	\$1.09	\$1.30
Airport	1,511,834	-	14.1%	-1,649	9,108	-	\$1.43	\$1.37
Clovis	989,540	22,098	7.7%	284	-52,379	\$2.48	\$1.87	\$1.93
East Shaw	1,344,438	-	18.6%	-15,123	-16,118	-	\$1.48	\$1.47
Midtown	2,435,655	-	9.0%	-6,153	9,604	-	\$1.48	\$1.30
Northeast	1,218,966	-	15.5%	-12,733	-15,619	\$2.15	\$1.69	\$1.73
Northwest	1,723,947	-	11.0%	5,255	13,258	\$2.13	\$1.80	\$1.91
Palm Bluffs	1,856,173	5,885	12.8%	-9,936	26,576	\$2.61	\$2.35	\$2.36
West Shaw	1,716,083	-	12.4%	20,453	26,167	-	\$1.42	\$1.35
Woodward	3,665,794	-	8.0%	20,542	48,864	\$2.29	\$2.10	\$2.20
<b>Suburban Total</b>	<b>16,462,430</b>	<b>27,983</b>	<b>11.4%</b>	<b>940</b>	<b>49,461</b>	<b>\$2.28</b>	<b>\$1.76</b>	<b>\$1.75</b>
<b>Market</b>	<b>19,762,547</b>	<b>27,983</b>	<b>11.7%</b>	<b>14,448</b>	<b>33,573</b>	<b>\$2.24</b>	<b>\$1.66</b>	<b>\$1.66</b>






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**Fresno**

Pearson Commercial  
7480 N. Palm Ave., Suite 101  
Fresno, CA 93711  
559.432.6200

Corporate CA RE #00020875

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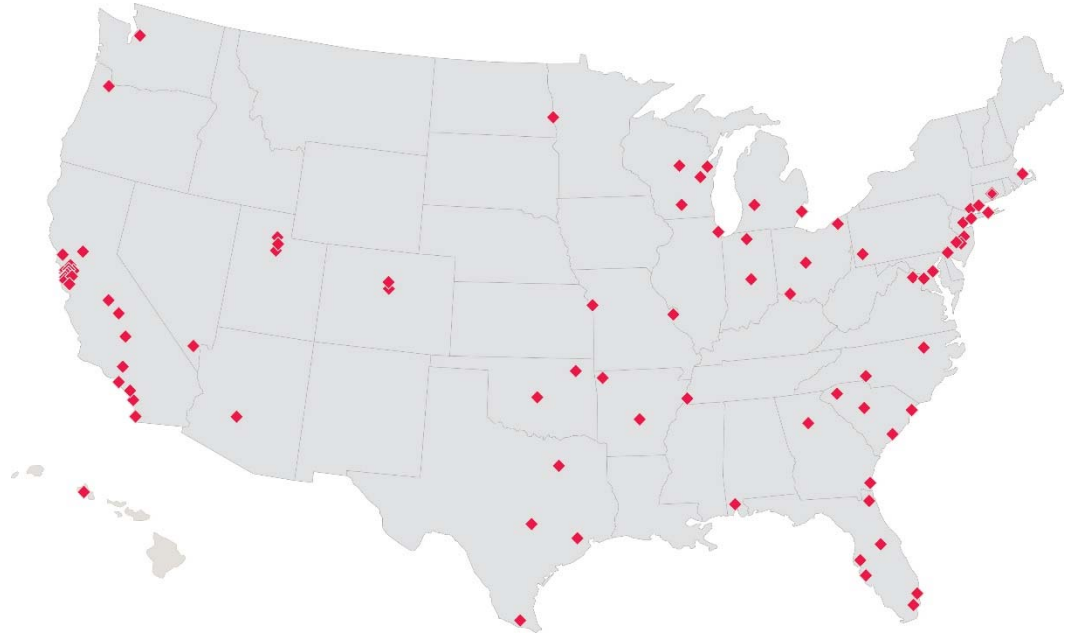
**Aaron Amaral**

Office Division Research Manager  
559.447.6216  
aamaral@pearsonrealty.com

**Jessica Young**

Marketing Specialist  
559.447.6281  
jyoung@pearsonrealty.com

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